


**2016 REGULAR SESSION
ACTUARIAL NOTE SB 7**

<p>Senate Bill 7 SLS 16RS-70 Enrolled</p> <p>Author: Senator Barrow Peacock Date: May 24, 2016</p> <p>LLA Note SB 7.04</p> <p>Organizations Affected: Louisiana School Employees' Retirement System</p> <p>EN INCREASE APV</p>	<p>This Note has been prepared by the Actuarial Services Department of the Office of the Legislative Auditor. The attachment of this Note to SB 7 provides compliance with the requirements of R.S. 24:521</p> <div style="text-align: center;">  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services </div>
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Bill Header: SCHOOL EMPLOYEES RET. Provides relative to certain purchases of service credit. (6/30/16)

Cost Summary:

The estimated actuarial and fiscal impact of the proposed legislation is summarized below. Actuarial costs pertain to changes in the *actuarial present value of future benefit payments*. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number.

Actuarial Cost to Retirement Systems	Increase
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	Increase

Estimated Actuarial Impact:

The chart below shows the estimated change in the *actuarial present value of future benefit payments*, if any, attributable to the proposed legislation. A cost is denoted by "Increase" or a positive number. Savings are denoted by "Decrease" or a negative number. Present value costs associated with administration or other fiscal concerns are not included in these values.

<u>Actuarial Cost to:</u>	<u>Change in the Actuarial Present Value</u>
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	\$0
Total	Increase

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for the retirement systems and other government entities. Fiscal costs include estimated administrative costs and costs associated with other fiscal concerns. A fiscal cost is denoted by "Increase" or a positive number. Actuarial or fiscal savings are denoted by "Decrease" or a negative number.

EXPENDITURES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase	Increase
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	2016-17	2017-18	2018-19	2019-2020	2020-2021	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

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Bill Information:

Current Law

Active contributing members of Louisiana School Employees' Retirement System (LSERS), who have rendered service for at least 90 days, may receive credits for service rendered but not credited under any other public retirement system. Current law provides that the employee will pay the cost associated with the purchase of the additional service credit.

Note that current law as written allows for the purchase of service even if such service was rendered in another state. However, LSERS administers current law as if only Louisiana service can be purchased.

Proposed Law

SB 7 will make the following changes regarding the ability to purchase service credits rendered but not accounted for under other Louisiana public retirement systems.

1. Any member who is not yet retired will be able to purchase service credits rendered but not accounted for under other Louisiana public retirement systems. Currently only active contributing members may purchase such service. Under SB 7, members who have terminated from service but are not yet retired will also be able to purchase these service credits.
2. Any member eligible to purchase such credits may do so regardless of the number of days rendered but not accounted for under other Louisiana public retirement systems. Currently, at least 90 days of such service must be available and the member must purchase at least 90 days of such service.

Implications of the Proposed Changes

SB 7 expands the group of members who may purchase service rendered but not accounted for under other Louisiana public retirement systems to include members who have terminated from service but are not yet retired. SB 7 eliminates the requirement that at least 90 days be purchased.

Cost Analysis:

Analysis of Actuarial Costs

SB 7 contains benefit provisions having an actuarial cost. Members who purchase service credits under SB 7 will receive a larger benefit than they would have received had the bill not been enacted.

Retirement Systems

SB 7 will have the following effect on actuarial costs.

1. The group eligible to purchase such service credits will be expanded to include members terminated from service but not yet eligible to retire. System liabilities will increase as the new group purchases service credits. However, the liability will be offset by the lump sum payments made by members purchasing service.
2. The requirement that a member must purchase at least 90 days of such service credit will be eliminated. This increases the number of members eligible to purchase such service credit and increases the amount of service that is available for purchase. System liabilities will increase as this new group purchases service credits. System liabilities will increase as members of all other eligible groups purchase more service credits than they would have otherwise. However, the liability will be offset by the lump sum payments made by members purchasing service.

In addition to the expected liability increases identified above, liabilities will increase because of anti-selection. Because this purchase is not subject to underwriting, a member will purchase service credits or not purchase service credits depending upon whether he or she perceives the purchase to be advantageous to them individually. The purchase price of the service credits do not include any adjustments for anti-selection.

Other Post-Employment Benefits

There are no actuarial costs associated with SB 7 for post-employment benefits other than pensions.

Analysis of Fiscal Costs

SB 7 will have the following effects on fiscal costs during the five year measurement period.

Expenditures:

1. Benefit payments by LSERS (Agy Self-Generated) will increase to the extent that more service credits will be purchased under SB 7 than would be purchased under current law.
2. Expenditures from Local Funds will increase to the extent that SB 7 leads to adverse selection and larger employer contribution requirements.

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Revenues:

1. Revenues for LSERS (Agy Self-Generated) will increase as members make lump purchases of service credits under SB 7 that they would not have been able to make under current law.
2. Revenues for LSERS (Agy Self-Generated) will increase to the extent that the employer contribution rate must be increased to accommodate anti-selection.

The sum of all increases in fiscal costs during the five fiscal years immediately following the 2016 session is expected to be less than \$100,000.

Actuarial Data, Methods and Assumptions

This actuarial note was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report approved by PRSAC. These assumptions and methods are in compliance with actuarial standards of practice. This data, methods, and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

Actuarial Caveat

There is nothing in SB 7 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

- 13.5.1: Annual Fiscal Cost \geq \$100,000
- 13.5.2: Annual Tax or Fee Change \geq \$500,000

House

- 6.8(F)(1): Annual Fiscal Cost \geq \$100,000
- 6.8(F)(2): Annual Revenue Reduction \geq \$100,000
- 6.8(G): Annual Tax or Fee Change \geq \$500,000